



# Overview of the Governor's Proposed 2005-06 Budget

ITEM 4

DRAFT

*On Monday, January 10, 2005, California Governor Arnold Schwarzenegger released his proposed State budget for the upcoming 2005-06 fiscal year. The Governor proposes general purpose expenditures of nearly \$112 billion, with State General Funds anticipated to account for \$86 billion of this amount – a 4.2% increase over estimated current year (2004-05) General Fund spending.*

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*The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at [www.cpec.ca.gov](http://www.cpec.ca.gov).*

## Overview

The Governor's 2005-06 budget proposes increased general purpose funding for both K-12 education and higher education. The budget proposes to spend 11.6% of available State General Funds on higher education. Although this is two-tenths of a percent higher than the most recent estimate of higher education's share of State General funds in the current fiscal year, it would still be among the lowest such shares in the past 40 years.

The Governor is proposing to reduce spending and change caseloads in many areas of the State budget in an effort to reduce the State's annual funding obligations in the budget year and beyond. The 2005-06 budget also proposes major policy changes to Proposition 98 funding, to the State's funding relationship with its major pension programs (STRS and PERS), and to many other areas in an effort to reduce ongoing State expenditures in the future.

The Governor's proposed budget includes funding for many policy initiatives that are consistent with the Postsecondary Education Commission's 2005 priorities: access to higher education, workforce development, and accountability in higher education. One initiative in the area of workforce preparation proposes changes to K-12 and community college career technical education programs and provides \$20 million in one-time funding to the community colleges for technical and vocational education programs. The goal of this initiative is to ensure that students have access to substantive job training and career development programs.

The proposed budget also funds greater enrollment growth (3%) in the community colleges than what is called for in statute (1.9%), that provides greater access at the main entry point to postsecondary education in California. The Governor also proposes to set aside \$31.4 million for the community colleges if the system develops an accountability structure that measures performance at the district level.

Chart 1 shows overall State General Fund revenue sources and anticipated expenditures in general program areas. 2005-06 General Fund revenues are expected to grow by more than \$5 billion over current year levels. General Fund expenditures are proposed to increase by \$3.4 billion, less than two-thirds of the growth in revenues. In dollar terms, the \$2.4 billion increase in proposed K-14 Proposition 98 spending represents the largest funding increase.

<b>Chart 1 General Fund Revenues and Expenditures, 2004-05 and 2005-06 (Dollars in Millions)</b>				
<b>REVENUES</b>	<b>Revised 2004-05</b>	<b>2005-06</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Revenues	\$77,904	\$83,228	\$5,324	6.8%
Transfers	315	544	229	72.6%
<u>Recovery Bonds</u>	<u>2012</u>	<u>1,683</u>	<u>-329</u>	<u>-16.4%</u>
<b>TOTALS</b>	<b>\$80,231</b>	<b>\$85,454</b>	<b>\$5,223</b>	<b>6.5%</b>
<b>EXPENDITURES</b>				
Exec-Leg-Judicial	\$2,873	\$3,016	\$143	5.0%
State, Consumer Services	535	563	29	5.3%
Business-Trans-Housing	377	380	4	1.0%
Resources, Environment	1,141	1,339	198	17.3%
Health, Human Services	25,519	26,689	1,171	4.6%
Youth, Adult Corrections	6,897	6,980	83	1.2%
Hi Ed., Non-Prop 98 Ed. <sup>1</sup>	7,912	8,589	677	8.6%
STRS Contribution	1,149	581	-567	-49.4%
Prop 98 Education	34,124	36,532	2,409	7.1%
Labor, Workforce Devel.	87	87	0	0.0%
<u>General Government</u>	<u>1,683</u>	<u>980</u>	<u>-702</u>	<u>-41.7%</u>
<b>TOTALS</b>	<b>\$82,295</b>	<b>\$85,738</b>	<b>\$3,443</b>	<b>4.2%</b>
1. Includes: UC, CSU, CSAC, Hastings other; <u>excludes</u> most CCC funding.				
Source: California Department of Finance budget materials.				

## K-12 Education Highlights

Below are highlights from the proposed 2005-06 budget for elementary and secondary education:

- \$37 billion in Proposition 98 spending (includes community colleges), a 7.1% increase;
- \$2 billion to fully fund both statutory and discretionary enrollment growth and COLAs;
- \$329 million for “Deficit Factor Reduction.” The 2003-04 Budget Act reduced K-12 revenue limits by \$894 million, and the current year budget restores \$270 million of this amount. The proposed 2005-06 budget restore another \$329 million of this amount to K-12 districts;
- \$100 Million in one-time funds, to be earmarked for emergency facility repairs, as part of the Williams v. State of California lawsuit settlement;
- \$271 million for a State Grant program designed to improve under-performing schools;

In addition, the Governor proposes several major policy initiatives that will have budget implications, including:

- Implementation of locally developed “merit-only” based pay systems for K-12 teachers;
- Consolidation of \$362 million in categorical programs for professional development and teacher credentialing programs into one block grant;
- Creation of a “Charter School Block Grant” program to provide extra funding to Charter schools, (which generally do not participate in many K-12 categorical funded programs);
- Creation of a “California Local Education Accountability Pilot Program,” designed to place control of school resources at each school site;
- Authorization of the State Board of Education to assign special teams to manage schools failing to meet the accountability provisions of state law and the “No Child Left Behind” federal act.

### Higher Education Highlights

California’s postsecondary education systems and agencies fair better in the proposed 2005-06 budget than do most other aspects of State government. Chart 2 shows that combined State General fund and Local fund revenues to higher education in 2005-06 are proposed to increase by nearly \$700 million (6.3%) over current year levels.

“State Determined Funds,” general purpose operating fund sources over which the State or higher education systems exercise some policy control, are proposed to account for more than \$15 billion in higher education spending in the budget year. Not including local property tax revenues for the community colleges, higher education State general funds for 2005-06 are proposed to increase by \$621 million (6.7%) from the current year level of \$9.3 billion.

Below are some highlights from the proposed budget for postsecondary education:

- Full funding of the higher education “Compact,” including a \$72 million base budget increase for CSU and a \$76 million base budget increase for UC.
- \$196 million for a 3.93% cost-of-living adjustment for community colleges general purpose apportionments and selected categorical programs.
- \$138 million to fund 3% enrollment growth at CCCs (34,000 new FTE students), \$51 million to fund 2.5% enrollment growth (8,000 new FTE students) at CSU, and \$38 million to fund 2.5% enrollment growth at UC (5,000 new FTE students).

<b>Chart 2 Higher Education Proposed 2005-06 State Funding</b>				
<b>ENTITY</b>	<b>2004-05 (est.)</b>	<b>2005-06 (proposed)</b>		
	<b>State General Funds <sup>1</sup></b>	<b>State General Funds <sup>1</sup></b>	<b>Percent Change</b>	<b>State-Determined Funds <sup>2</sup></b>
Postsecondary Education Commission	\$2,063	\$2,059	-0.2%	\$2,059
University of California	2,708,802	2,806,287	3.6%	4,780,804
Hastings College of the Law	8,119	8,363	3.0%	35,388
California State University	2,496,694	2,607,179	4.4%	3,860,232
California Comm. Colleges	4,800,970	5,176,740	7.8%	5,318,270
Student Aid Commission	672,058	745,525	10.9%	745,525
H. E. General Obligation Bonds <sup>3</sup>	402,625	443,485	10.1%	443,485
<b>TOTALS</b>	<b>\$11,091,331</b>	<b>\$11,789,638</b>	<b>6.3%</b>	<b>\$15,185,763</b>

1. Community Colleges " State General Funds" include Local Property Tax Revenues.  
2. "State Determined Funds includes: General and local funds, resident student charges revenues, lottery funds, and general-purpose institutional revenues; excludes federal and extramural funds.  
3. Includes G. O. debt service for UC, CSU, CCC, and Hastings.  
Source: Governor's Proposed 2005-06 Budget

- Support for 8% increases in undergraduate system wide student fee levels in the CSU and UC (consistent with the Compact), and no fee increase proposal for CCCs.
- \$45 million increase for Cal Grants above current year levels and a \$7 million increase in the “Assumption Program Loan for Education” (APLE) funding.
- \$28 million in funding reductions to UC and CSU from 2004-05 legislative augmentations above “Compact” funding levels.
- \$414,000 in “across the board” State operations reductions for the CCC Chancellor’s Office, the Postsecondary Education Commission, the State Library, and other entities.
- More than \$1.6 billion to the systems’ capital outlay building programs, primarily using monies from the 2004 Educational Facilities Bond Act.

### **Budget Deficit and Proposed Remedies**

The proposed 2005-06 budget projects revenues and expenditures for the 18-month period December 30, 2004 through June 30, 2006 – the remainder of the current fiscal year and the length of the upcoming one. For this period the budget estimates a State General Fund deficit of just over \$9 billion. To address this deficit the Governor proposes policy changes and deficit-financing bonds anticipated to generate just over \$9 billion in savings over the next 18 months.

Of the \$9 billion in proposed cost savings for the budget year, the Legislative Analyst estimates that approximately half of the reductions are ongoing and should generate annual cost savings of \$4.5 billion. Below are summarized some of the major changes being proposed:

- Maintain K-14 Proposition 98 spending at 2004-05 Budget Act levels, savings roughly \$1.1 billion in both 2004-05 and 2005-06 and eliminate the State’s annual base program contributions to the State Teachers’ Retirement System (STRS), for a budget-year savings of \$469 million.
- Issue a “judgment bond,” instead of appropriating State General Funds in the budget year, to finance a pending \$464 million settlement of flood control-related litigation against the State.
- Suspend Proposition 42’s loan repayment provisions, generating an 18-month General Fund savings of \$1.3 billion. Under Proposition 42, gasoline sales tax revenues are transferred from the General Fund to special transportation funds each year; the initiative permits suspension of this transfer during budget deficit periods. Under the Governor’s proposal, the loan is to be repaid over the next 15 years and after 2006-07, the required annual transfer of gasoline sales tax revenues could no longer be suspended.
- Implement various reductions to anticipated caseload and workload growth in Health and Human Services programs proposed to generate \$1.1 billion in budget year savings; \$653 million of these savings are to be achieved through grant reductions and elimination of cost-of-living adjustments in the Cal Works program.
- Reduce State employee compensation costs of \$408 million by negotiating reductions in pay and benefits through the collective bargaining process and reducing State pension costs.
- Use \$1.7 billion of the \$3.7 billion that remains from the \$15 billion “Economic Recovery Bonds” authorized by the voters in Proposition 57 of 2004.